Funding the Future

Austerity

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Work on the glossary is advancing: it has now grown to 36,000 words and there are still more than 100 entries to add (and maybe more). Many of these entries are short. Others are of essay length. I write this on austerity yesterday. Comments on length, suitability and anything else are welcome:

Austerity is a narrative largely attributable in the UK at least to David Cameron and George Osborne, who were, respectively, prime minister and the chancellor of the exchequers of the United Kingdom from 2010, until 2016.

The austerity narrative was created as a reaction to the financial situation inherited by the incoming Conservative government in 2010 from the Labour government that was voted out of office in that year, which party had been in government during the global financial crisis of 2008.

Cameron and Osborne claimed that the record-breaking government deficits (exceeding £150 billion in 2009) that it had inherited had a number of consequences that they had to address. These included:

* The risk that the UK government could not service its debt obligations.

* The risk that the UK government could no longer be able to borrow on international financial markets, because of the threat that deficits posed to its solvency.

* The likelihood that the UK government could no longer afford to spend at the level it had under the previous Labour administration because the UK economy had been irreparably harmed by the UK financial crisis, which they blamed upon the Labour government.

As a consequence, Cameron Osborne claimed that:

* UK government expenditure must be cut under an austerity program that they would put in place.

* It was essential that UK government debt as a proportion of its gross domestic product (see separate entry) be reduced to restore the U.K.'s international financial credibility.

These claims by Cameron and Osborne and their associates in the coalition partners, the Liberal Democrats, were not justified, because:

* There was no risk to the UK's ability to service its debt or to pay the interest due upon it. This was because as a sovereign nation with its own central bank and its own currency with debts that were at the time entirely denominated in that currency the UK could always create any money owing by it as liabilities fell due by simply asking the Bank of England to create the money in question. This put it in complete contrast with the situation in Greece, which used the euro, but with which Osborne made frequent and entirely incorrect comparison.

* Almost all economists agree that in the event of a recession, or threat of it, a government should increase its spending to counter the downturn in private sector spending and so prevent too large a fall in the income of a country, but what Osborne proposed was to reduce government spending, so increasing the likelihood of a significant reduction in overall national income.

* In practice, very little additional debt was taken on by the UK government between 2010 and 2013, precisely because most of government expenditure in excess of taxation revenues, during the course of this period was funded by a quantitative easing program, with which factor Osborne would have been very familiar. Osborne denied that this programme reduce the real level of government debt even though this was continually demonstrated, be the case by the Whole of Government Accounts (see separate entry).

The austerity narrative was supported by a number of claims, most of which were easy to communicate, but all of which were wrong. These narratives included:

* The claim that the Labour Party was entirely responsible for the 2008 financial crisis, which had, in fact, originated in US housing markets and which was global rather than peculiar to the United Kingdom.

* That the UK, like a household, was broke and unable to pay its debts (see separate entry on the household analogy).

* That because the UK was broke it must, like a household, cut its costs (again see separate entry on the household analogy).

* That government was too big under Labour and could not be afforded, for which

there was no evidence before the global financial crisis.

* Much of the overspending by the Labour government had been because of excess benefit payments to persons whom Cameron and Osborne described as skivers even though there was little or no evidence to support this claim.

The austerity program put in place since 2010 has been a disaster for the UK:

* The incomes of most people have not risen in real terms since 2010.

* In contrast, the income of those in higher earning echelons have increased, significantly, meaning that inequality has grown as a consequence (see separate entry).

* Wealth inequality grew substantially during the course of this period, primarily because the quantitative easing program whose primary consequence was the release of additional funding to banks to restore their solvency following the global financial crisis, which funding they then used to make loans that inflated the price of assets (most especially domestic housing), which programme then restored commercial bank solvency, enabled banks to restore the payment of bonuses remarkably soon after the crisis had ended, and resulted in further inequality within the UK society.

* The reduction in many benefit payments and the introduction of new charges on those on benefits, including the so-called bedroom tax, reduced the income of the lowest-earning groups in society, again, increasing inequality.

* The substantial reduction in funding to local authorities, most, especially in England, resulted in significant reductions in the expenditure on social care, reducing the amount of support available to the most vulnerable in society.

* The reduction in the budgets of many public services, including education and health, resulted in substantial under-investment in the services, which left the UK, subject to significant risk when the Covid crisis hit. This has now in turn resulted in the chronic under capacity within the NHS being witnessed in 2022/23.

* The reduction in real pay for public sector workers, including teachers, healthcare workers, university lecturers, civil servants, social care professionals and others, led to an exodus of experienced and qualified staff from these services that has reduced their capacity to meet public demand for such services.

* The reduction in expenditure on defence has led to the U.K.’s loss of international status as a military power.

The austerity program also failed because, using the government’s own preferred definition of national debt (see separate entry) debt increased from £1 trillion in 2010 to almost £2.5 trillion in 2023, meaning that 60% of all UK national debt in 2023 had been incurred since 2010, when the supposed objective of the austerity program was to reduce that debt as a proportion of GDP, when it had in fact increased to record levels.

In its own terms, the austerity programme failed as a result.

None of this was necessary: the inappropriate application of the household analogy to the management of the finances of the UK's macroeconomy led to destruction of economic power within the country that firstly led to Brexit, because of the disenchantment of many with the government that imposed this programme and secondly has led to a persistent poor economic performance in the UK when compared to all other countries of similar size and economic development meaning that by 2023 it had uniquely failed to recover from the economic downturn caused by the Covid crisis